

StraightTalk

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What Never Changes

One of the books on my “read over the holidays” list is *Same as Ever: A Guide to What Never Changes*, by Morgan Housel. The book is a discussion of risk and behavior, and the author suggests that instead of worrying about (or trying to predict) the little ways the future might change, we’d be better off studying the things from the past that never change – chief among them, human behavior. This seems a perfect book for the times we find ourselves in today, and I look forward to finishing it during the holidays.

In my last newsletter, I referenced the fact that U.S. companies have been compounding at seven percent above inflation as long as America has been a country. In his book, Housel points out how close we came to not even having an America in the first place. We all know that our brilliant founding fathers risked their reputations, their fortunes, and even their lives for this magnificent experiment in freedom. And we all remember learning in school about the years of groundwork, discussions, debates, arguments, and actions leading up to the Declaration of Independence and The Constitution creating the United States. But it may surprise you to know that if the wind had blown in a different direction in late August of 1776, we would be living in a colony of Great Britain right now. On August 27 of that historic year – in the first military battle following the Declaration of Independence – General George Washington suffered a disastrous defeat, losing control of the vital harbor of New York. All the British had to do after that victory was to sail up the East River, and Washington’s cornered troops would have been wiped out – and the war would have been over almost as soon as it began. *But the wind was blowing in the wrong direction*, and instead of surrendering, Washington escaped.

Noted historian David McCullough said of this set of circumstances, “If the wind had been in the

other direction that night, I think it would have all been over – no United States of America if that had happened.” Just one small thing, *the direction of the wind*, changed the course of history forever.

All too often, in portfolios, politics, and society in general, we spend too much time worrying about the next small thing, which is impossible to foresee, or predict. Will the Fed cause a recession? Will my candidate win the election? Will the pandemic recede or resurge? Instead, as Housel points out in his book, we would be better off studying the surprising number of things that haven’t changed throughout history. Human behavior sits atop that list for me, and explains much about where we find ourselves today. My year end letter will dig much deeper into this historic tendency to succumb to the negative but suffice it to say – we have been here before.

Human behavior is remarkably consistent, and therefore somewhat easy to understand given any set of circumstances. Even historically more consistent is the compounded return of owning the great companies of America over time. If the largest, best capitalized, and most liquid companies in our system have been growing at seven percent above inflation since America began, why would anyone ever sell them in a panic? I think the answer lies in worrying about the next small thing we mistakenly believe to be a big thing. Foreign military activities, politicians behaving badly, periodic cycles of economic contraction – these are not necessarily small things in our lives, but as it relates to long-term compounding in our portfolios, they should definitely be filed under “N” for noise. And it is becoming demonstrably harder to discern what is news and what is noise with each passing year.

It’s not just that bad news sells, it’s also that bad news is always happening all the time, all over the world. If you are enjoying your retirement today, a

good part of your early life occurred during a time when news was mostly local, not national, or global. In fact, for all of recorded human history up until about 100 years ago, the only news was what you saw or heard in your village or town. The advent of radio fundamentally changed how news was disseminated, by connecting people to a common source of information for the very first time. TV then meaningfully expanded this with pictures and video, the Internet made news available 24/7 with the click of a mouse, and social media has created an echo chamber of heavily biased news amplification.

This rise of digital news not only made the news flow feel more negative, it also killed local newspapers. According to the University of North Carolina's Hussman School of Journalism and Media, over 1,800 American newspaper publishers have disappeared since 2004, and it appears to be accelerating. This means that fewer people are reading news from a local source, and more people are getting news from a national or global electronic source. A recent study by Statista showed that an astonishing 50% of Americans under the age of 30 get their daily news from social media, including foreign owned TikTok.

With over 8 billion people on the planet, the odds of something terrible happening to someone, somewhere are literally 100%. The news in those digital feeds, websites, and television seems more negative today because there are more sources for that news than ever. However, I would argue that your local life is not any worse than it ever was, and in fact, is likely significantly better than it was two or three decades ago.

One thing most of us can agree upon that doesn't feel better than it was two or three decades ago is our elected government. To say that our Congress is in disfunction is to do a disservice to that word. However, when you look back through history, there have been times like these, as human behavior remains consistent. Self-serving and self-dealing decision-making in government is far from new – it has always been thus. I believe that as it

relates to your lifetime accumulation of wealth, regardless of which side of the political aisle you sit on, far too much of our collective focus is on the 535 elected representatives in Congress. It is an undeniable fact that they spend more each year than is collected in taxes. If they wanted a balanced budget, we would have one. If they wanted to reduce America's long-term debt, they would do so. None of this is new – it has been going on, literally, for centuries. To try and make investment policy from this fact is not only unwise, but it could also be unrecoverable for your long-term plan. It is far better to focus on the long-term performance of the great companies, which have a history of succeeding despite what happens in Washington, D.C. each year.

We do know that every day in America, something fantastic happened somewhere, and that the daily news flow will likely omit it, in favor of something shocking, or negative (or both.) But if you look through to the bigger picture, and widen your economic lens – it appears that the darkness is giving way to dawn, and the sun is coming up soon.

Inflation is down precipitously, and is likely already at the Fed's target of 2%, as "shelter" accounts for one-third of inflation and has a half year lag in reporting. The Fed will keep talking as if there is more work to do – but they are done raising rates. Unemployment remains spectacularly low, even as the economy slows from the overheated post-pandemic pace. The atrocities on both sides in the Israel-Hamas war do not appear to be spreading into a much larger war, and the price of oil is falling as a result. Congress actually agreed to fund the country for a few more weeks, and the auto workers and Hollywood actors agreed to terms, thus ending their strikes. The bond market has stabilized, and corporate earnings growth rates are no longer going down, they are rising once again. I could go on...but in terms of market inflection points, you don't need to see the dawn immediately on the horizon for markets to begin to recover. You just need things to get less dark. The holidays are upon us, avoid paying too much attention to news, and enjoy the season....

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